

# LAW OF GEORGIA ON PENSION SAVINGS

## Chapter I - General Provisions

### Article 1. Scope of the Law

1. This law governs the legal relations in the field of pension savings.
2. Relationships with pension savings are regulated independently from the sphere of regulations of state pension and state compensation.
3. The purpose of this Law is to ensure the management of pension assets within pension savings scheme in accordance with the interests of the participants.
4. This Law shall extend to:
  - (a) employers;
  - (b) citizens of Georgia, except for non-resident natural persons;
  - (c) foreign citizens permanently residing in Georgia and stateless persons, except for non-resident natural persons;
  - (d) the activities of the Asset Managers, Custodians, commercial banks, insurance companies and other persons that are related to Pension Savings.

### Article 2. Terms used in this Law

1. For the purposes of this Law the terms used herein have the following meanings:
  - a) **Affiliated Entity** – in relation to any person:
    - (i) the owner of the right to vote for more than ten (10%) percent of shareholding or a shareholder of a smaller percentage than ten (10%) percent, who can influence, directly or indirectly, the decisions made by such entity;
    - (ii) any other legal entity in which a shareholder having (directly or indirectly) more than twenty-five (25%) percent of shares with the right to vote concurrently holds (directly or indirectly) more than twenty-five (25%) percent of shares of such person with the right to vote;
    - (iii) an investment or administrative decision maker or any member of supervisory body.
  - b) **Asset Management Company** – a legal person licensed to manage assets by the National Bank of Georgia or by the respective regulatory body of another state as accepted by the National Bank of Georgia that manages the pension assets based on the asset management agreement, or an entity created or founded by the international organisations to which Georgia is a member state for the purposes of asset management and/or for providing investment advices and which shall not be subject to licensing by a relevant regulatory body of a particular state;
  - c) **Asset Allocation Strategy** - an investment strategy that includes the benchmarks for allocating different class assets in investment portfolios, the bases for defining the benchmarks and acceptable variance from the benchmarks which depend on the tolerance towards the risks of the Pension agency and/or Asset Manager(s), on the investment period, investment objectives and which may be changed in accordance with the changes in the parameters;
  - d) **Defined Contribution Pension Scheme** – a Pension Scheme in which contributions made on behalf of the Participants are calculated under the rules prescribed by this Law and are reflected on the Individual Pension Accounts, while the received benefits are calculated only in relation to paid contributions and income, expense, capital gain, loss and other income (if such exists) credited to an Individual Pension Account, and Pension is paid in compliance with

this Law;

e) **Employer** – a person who pays salary to the employee for the performed work;

f) **Employee** – natural person who:

f.a) Performs obligations within relations which are governed by the civil and the labour legislation of Georgia and/or labour legislation of a foreign country;

f.b) Performs obligations related to his/her service in the armed forces or law-enforcement bodies of Georgia or other bodies equalised with them;

f.c) is a manager (director) or acting manager (director) of a company or organisation;

f.d) State Servants defined by the Law on Public Service.

g) **Lump Sum Payment** – a single payment of the total Pension Assets on an Individual Pension Account;

h) **NBG** – National Bank of Georgia;

i) **Self-employed Person** – Individual Entrepreneur, also a natural person who carries out activities performs the activities defined by Paragraph 3 of Article 1 of the Law of Georgia on Entrepreneurs to the extent such activity is not subject to withholding tax at the source;

j) **Income of the Self-employed:**

l.a) In case of an Individual Entrepreneur, gross income received from entrepreneurial activity as defined by the Tax Code of Georgia and subject to taxation by income tax;

l.b) In case of natural persons defined by Paragraph 3 of the Law of Georgia on Entrepreneurs gross income subject to taxation by income tax;

k) **Individual Pension Account** – a form of an account created by the Pension Agency for a Participant which reflects all Pension Contributions made in favour of a Participant, the results of assets management, the amounts withdrawn in accordance with this law and all the related expenses;

l) **Participant** – a natural person who makes or on whose behalf Pension Contributions are made to the pension savings scheme of the Pension Agency;

m) **Fiduciary** – a person with responsibility to Participants for the Pension Assets to the extent that such person:

m.a) exercises any discretionary authority or control with respect to the management of assets except the cases of regulatory purposes by the National Bank of Georgia;

m.b) provides investment advice to the Pension Agency under a respective agreement;

m.c) registers transactions and processes the information related to the transactions, keeps and/or maintains records of Participants;

n) **Pension** – a cash benefit received by participating in the Pension Savings Scheme which is reflected on the Individual Pension Account of the Participant and is payable to the Participant in the amount and manner specified by this Law;

o) **Scheduled Withdrawal** – a periodic withdrawal of a Pension from an Individual Pension Account as allowed under this Law;

p) **Investment Policy Document** – a document developed by the Investment Board, which defines investment strategy and principles and is used by the Pension Agency and/or Asset Manager(s) in the course of adopting decisions related to management of the Pension Assets of Participants;

q) **Pension Age** – age determined under the Law on State Pensions;

r) **Pension Assets** – The sum of all assets registered on an Individual Pension Account. The Budget Code of Georgia shall not apply to pension assets;

s) **Pension Contributions** – sum of money paid in favour of a Participant in the amount and manner specified by this Law to be reflected on his/her Individual Pension Account. The

- amount is paid by an employer, employee and state, if the Participant is employed, and/or by a self-employed and state, if the Participant is self-employed;
- t) **Supervisory Board** – the Supervisory Board of the Pension Agency consisting of the Minister of Finance, the Minister of Economy and Sustainable Development of Georgia, the Minister of IDPs from the Occupied Territories, Labour, Health and Social Affairs of Georgia and the Chairperson of the Investment Board each member of which shall be the member of the Supervisory Board based on his/her official status;
  - u) **Government Securities** – securities issued by the State of Georgia;
  - v) **State Treasury** – Treasury Service within the Ministry of Finance of Georgia;
  - w) **Investment Board** – The Investment Board of the Pension Agency which determines the investment policy of pension assets;
  - x) **Electronic System of Pension Contributions Administration** – an electronic system of the Pension Agency and the respective database supported by information technologies;
  - y) **Custodian** – a Fiduciary that is a legal entity licensed by the National Bank of Georgia or by a regulatory body of another state as accepted by the National Bank of Georgia to provide custodial services in Georgia, or a branch of such entity that provides custodial and depository services to the Pension Agency on the basis of a respective custodial agreement;
  - z) **Investment Horizon** – the period of time in which the Pension Agency and/or Asset Management Company(ies) plans to invest in particular class of assets or in investment portfolio in accordance with the risk tolerance and desired investment income determined by assets allocations strategy;
  - aa) **Investment Portfolio** – pool of investment instruments in which composition of such instruments depends on investment period, investment objectives and risk tolerance;
  - bb) **Special Temporary Regulatory Regime** – a temporary regime of administration of the Pension Agency implementation of which is commenced in compliance with this Law with the objective to ensure continuity of investment activities by the NBG;
  - cc) **Open-End Pooled Instrument** – an investment through entities or instruments organized and operating as investment companies under the laws of another state, or investment funds under the laws of Georgia authorized to issue an unlimited number of equity shares (in fractional or whole units) or equity securities representing proportional equity ownership in such entities or funds by the shareholder. An open-end pooled instrument includes mutual funds, investment funds and also other investment instruments under the laws of foreign countries operated on an aggregated (pooled) basis;
  - dd) **Revenue Service** – a legal entity under public law (LEPL) operating under the Ministry of Finance of Georgia;
  - ee) **Disability** – the condition as defined by the Law of Georgia on Medical and Social Examination;
  - ff) **Selection Committee** – the committee to select the candidates to the membership of the Investment Board;
  - gg) **Wage** – the income received from the service rendered taxable at the source of payment, as well as the income received in the form of a salary provided for by article 101 of the Tax Code of Georgia, in accordance with the legislation (except income, which, according to Article 104 of the Tax Code of Georgia, does not fall within the income received from the source in Georgia, royalties, rent, lease and investment income).
  - hh) **Annual Salary / Annual Income** - Salary/Income for a participant from the period of 1 January to 31 December of any year, for a newly registered member in the Pension - the period from the registration date through 31 December of the same year;

- ii) Non-resident – a person defined by the Tax Code of Georgia.

## **Chapter II Pension Savings Scheme**

### **Article 3. Pension Savings Scheme**

1. The Pension Savings Scheme shall be a Defined Contribution Pension Scheme.
2. Enrollment into Pension Savings Scheme is voluntary for all Employees in relation to their income received in the form of the Wage, except for the employee who has attained 60 years (in the case of women - 55 years) before enacting this law.
3. Enrollment into the Pension Savings Scheme is voluntary for all employees who have attained 60 years (in the case of women – 55 years) before enacting this law in relation to the Income Received in salaries and for self-employed persons – in relation of the income of the self-employed.
4. The financing of the pension contributions of the employed and self-employed participants of the Pension Saving Scheme shall be carried out by the employer, the employee and the state in the manner and in the amount as prescribed by this Law.
5. An employee who has attained 40 years before the enactment of this Law and who does not want to be a participant, shall be entitled to leave the Pension Savings Scheme in accordance with Article 22 of this Law.
6. The pension contributions of participant employees shall be financed in the following manner:
  - a) Upon payment of the monthly Wage, each Employer shall pay through the electronic system into the Individual Pension Account of each employee participant of the pension saving scheme the contribution equal to two percent (2%) of the taxable Wage of such Employee.
  - b) The Employer shall pay on behalf of each Employee participant through the electronic system into the Individual Pension Account of the Employee the contribution equal to two percent (2%) of the taxable Wage of such Employee.
  - c) Self-Employed participant shall pay four percent (4%) of his or her annual income;
  - d) For the benefit of each Participant, the State shall pay to the Individual Pension Account of each Participant two percent (2%) of his/her taxable Wage and/or Income of the Self-employed not to exceed twenty four thousand (24,000) Lari paid in the form of annual wages and/or received in the form of income by self-employed persons, or one percent (1%) of the Wage and/or Income of the Self-employed for the amount between twenty four thousand (24,000) Lari and sixty thousand (60,000) Lari. The State shall make referred contributions after the Pension Agency confirms based on its notice that the pension contributions under subparagraphs (a) and (b) and/or (c) of this Paragraph are reflected on the Individual Accounts of the Participants. The State shall not contribute for the amount of Participant's taxable annual Wage and/or the Income of the Self-employed which exceeds sixty thousand (60,000) Lari.

## **Chapter III Pension Agency**

#### **Article 4. Formation of the Pension Agency**

1. The Pension Agency is an independent Legal Entity under Public Law responsible for the implementation, management and administration of the Pension Saving Scheme.
2. The Statute of the Pension Agency to be adopted by the Government of Georgia shall define the structure, powers, and rules of procedure and other organisational issues of the Pension Agency.
3. The limitations on upper thresholds of wages as provided for by the legislation of Georgia shall not apply to the wages of the employees of the Pension Agency.

#### **Article 5. Supervision of the Activities of the Pension Agency**

1. The Supervisory Board shall supervise the activities of the Pension agency except for the investment activities.
2. NBG shall regulate the investment activities of the Pension Agency in accordance with this Law and other legal acts.

#### **Article 6. Competencies and Responsibilities of NBG**

1. NBG inspects the Pension Agency within the scope of the prudential regulation of investment activities:
  - a) the compliance of the Investment Policy Document with the requirements of article 27 of this Law;
  - b) the compliance of structure of the Pension Agency, the procedures related to the management of assets and logistical resources with the necessary minimal requirements established by NBG for investment activities of pension assets;
  - c) the methodology for elaborating the asset placement strategy, compliance of the selection procedure of the managers of the investment decisions and assets with the minimum requirements established by NBG; However, NBG shall not assess the investment decisions of the Pension Agency;
  - d) the compliance of accounting, settlement, administrative and information systems related to investment activities of the Pension Agency and the means of communicating with stakeholders with the requirements established by this law and the NBG;
2. NBG shall be authorized to:
  - a) establish additional regulatory rules for Custodian serving the Pension Agency. Such regulatory norms may relate to its own capital, experience of personnel, technical or software requirements, maximum service fees or any other issue that the NBG considers necessary for the implementation of this Law.
  - b) request any necessary information (including confidential information) from the Pension Agency, from natural and legal entities serving the Agency necessary for the exercise of the powers defined by this Law;
  - c) request the reporting documentation from the Pension Agency, the Custodian and the companies managing the assets, with the form and periodicity established by NBG;
  - d) carry out an on-site examination of the Pension Agency, the Custodian and the companies managing the assets, in accordance with this Law and other legislative and subordinate normative acts of Georgia.
  - e) establish additional principles and rules extending to the selection process of the open-end pooled instruments by the Pension Agency;

- f) in case of identifying important violations, within the powers determined by this Law, give binding instructions and/or public recommendations to the Pension Agency to remedy the existing discrepancies, indicating a reasonable timeframe.
3. The NBG shall be obliged to reflect compliance of investment activities of the Pension Agency with the requirements of this Law and the NBG in its annual report.
4. NBG establishes:
  - a) the methodology for calculation of the pension assets, including the information about the end of a trading day and rounding of the values;
  - b) minimum credit rating of financial instruments denominated in eligible national currency and in foreign currency provided for by Article 28 of this Law in which the Pension assets may be invested in accordance with this Law and other legislative and subordinate normative acts of Georgia.
5. The NBG shall provide the Pension Agency with the written information about the deterioration or possible deterioration of financial or organisational situation of the Custodian, provided NBG has such information;
6. The NBG shall implement Special Regulatory Regime the initiation of which is based on the loss of more than 1% of pension assets received a result of investing in pension assets and related activities, which is not caused by changes in market conditions or systematic failure to perform essential commands of the NBG or condition in which the Pension Agency temporarily fails to perform the functions related to investment activities, which provides, for the continuity of investment activities, implementation of a temporary action by the National Bank. The application and operation of the special regulatory regime by NBG shall be defined by NBG.
7. The NBG shall exercise other powers as provided for by the legislation of Georgia.

#### **Article 7. Administration of the Pension Savings Scheme**

1. Through use of the Electronic System of Pension Contributions Administration the Pension Agency shall provide technical support of enrollment of the Participants into the Pension Scheme, shall administer the Pension Contributions in compliance with this Law and shall form Individual Pension Account for each Participant.
2. The liabilities of employers and employees in respect of the implementation of pension contributions upon payment of salaries from the bank account are completed by the electronic system of pension contributions.
3. When paying from the salary bank account, an electronic system of pension contributions shall create respective information for the State Treasury, which is the basis for the state to fulfill the obligation defined by this Law.

4. When an employer pays the salary to the employee in cash, the employer shall, in favour and on behalf of the employee, calculate pension contributions in accordance with this law and shall direct it to the Pension Agency upon payment of the salary.
5. In the case of payment of wages in cash, the basis for the fulfilment of liabilities provided for by this Law for the State Treasury shall be the Pension Agency's requirement that arises only in case if the amount referred to the Pension Agency by an employer in accordance with paragraph 4 of this article is not less than the pension contribution amount appropriate to the wage issued by the employer pursuant to his/her Income declaration.
6. Self-employers shall make voluntary pension contributions during the annual declaration of their income.
7. In case of a self-employer the basis for the fulfilment of liabilities provided for by this Law for the State Treasury shall be the Pension Agency's requirement that arises only in case if the amount referred to the Pension Agency by the self-employer in accordance with paragraph 6 of this article is not less than the pension contribution amount appropriate to the wage issued by the employer pursuant to his/her Income declaration.,.
8. The Pension Agency shall be entitled to verify the information provided to the pension agency by an employer and self-employer through the information support of the Revenue Service. .
9. The Revenue Service shall provide the Pension Agency with the information, based on which the Pension Agency shall inspect adequacy of performance of contribution payment obligations by an Employer and Employee and/or reveal the facts of over-payment as a result of which:
  - a) In case of partial or full failure to meet Employer's or Employee's payment obligation the Pension Agency shall send to the Employer, Employee and the Revenue Service corresponding information by electronic means, which, based on this information, takes measures prescribed by legislation of Georgia;
  - b) In case of revealing the facts of over-payment, the Pension Agency shall administer such funds in compliance with the rules elaborated by the Pension Agency.
10. The Pension Agency shall manage and administrate the Electronic System of Pension Contributions Administration including through third parties.

#### **Article 8. Powers and Responsibilities of the Pension Agency**

1. The Pension Agency shall register enrolled Employees and Self-employed Persons into the Pension Savings Scheme and create Individual Pension Account for each enrolled Participant.
2. The Pension Agency shall dispose Pension Assets as a Fiduciary solely for the benefit and in the interests of the enrolled Participants of Pension Saving Scheme and their Heirs.
3. The Pension Agency shall analyse the pension system, assess risks, formulate the vision of the pension system development and improvement, prepare the recommendation and submit them to the Supervisory Board, at least once a year. Further, for the improvement and development of the Pension System, the Pension Agency shall communicate and consult the interested parties and always take care of the interests of the Pension Savings Scheme participants and work to increase the number of the participants.
4. For the purposes of sound administration of the Pension Savings Scheme, the Pension Agency shall have the following rights and duties:
  - a) open accounts in NBG and/or commercial banks;
  - b) manage and administer the Electronic System of Pension Contributions Administration;

- c) sign the contracts with the company (companies) managing the assets, with the Custodian and the persons providing any services and/or products necessary for implementation of investment or administrative activities;
  - d) sign the contracts with persons providing accounting, auditing, legal, actuarial and other services necessary for the Pension Agency;
  - e) request and receive the information from the asset management company (companies), from the custodian, open-end pooled instruments and persons providing other services, regarding any settlements made on behalf of the Pension Agency;
  - f) administrate the process of issuance of pensions;
  - g) enter into agreements about purchasing and disposing movable or immovable property, including equipment or software support necessary for the work of the Pension Agency;
  - h) hire employees for the Pension Agency and create a competitive compensation structure in accordance with this Law;
  - i) prepare an annual budget in order to submit it to the Supervisory Board of the Pension Agency;
  - j) adjudicate issues related to the Pension Contributions.
5. The Pension Agency shall elaborate legal acts on the rules of payment of pension contributions, as well as on the forms of submission of information and administration of overpaid funds.
  6. With the purpose of effective performance of the obligations of the Pension Agency defined by this Law and effective administration of accumulated pension schemes, any administrative body shall be obliged to provide the Pension Agency with a participant's personal data in accordance with the legislation of Georgia.
  7. In order to exercise powers assigned under this Law a director of the Pension Agency shall issue individual as well as normative administrative-legal acts.
  8. The Pension Agency shall, based on the research conducted by an independent party, substantiate the expediency of the changes in expenditure limits specified in Article 38(7) of this Law, 6 months prior to the changes in these expenditure limits for the source of financing of the pension Agency.

#### **Article 9. Director of the Pension Agency**

1. The Supervisory Board shall select through a competition, appoint and dismiss a director of the Pension Agency who shall manage the activities of the Pension Agency. The Director of the Pension Agency shall be appointed for the term of five (5) years.
2. The procedure and conditions for the selection of a Director of Pension Agency are determined by this Law and the statute of the Agency.
3. In the absence of a director of the Pension Agency or when he/she cannot fulfil the duties, the rule of appointment of the acting director of the pension Agency shall be determined by the Statute of the Pension Agency.
4. A director of the Pension Agency must hold a degree in the fields of economics or finances or business law and must have at least 5 years of experience of working on the managerial positions in the financial institutions. No person may be appointed as a Director if he or she has been convicted of a crime or adjudged bankrupt or ineligible to manage a financial institution in any country.
5. If the term of office of a Director of the Pension Agency has expired and no new Director has been appointed, then the existing Director shall continue with a mandate for no more than ninety (90) days after the expiration of the term.



6. A Director represents the Pension Agency before third parties and exercises the powers assigned to the Pension Agency under this Law and under the Statute of the Pension Agency.
7. A director of the Pension Agency, taking into account the provisions of subparagraphs (e) and (g) of paragraph 1 of Article 13 of this Law, shall prepare an annual budget and organisational structure of the Pension Agency and submit them to the Supervisory Board for approval.
8. A Director of the Pension Agency in accordance with the best international practice shall develop and submit to the supervisory Board for approval the rules and principles under which the activities of the Pension Agency shall be conducted, including the registration and administration of individual pension accounts, and accrual of contributions, expenses, capital gains and other incomes, returns and losses to the individual pension accounts.
9. A Director of the Pension Agency shall issue legal acts in accordance with this Law with regard to:
  - (a) appointment and removal of employees of the Pension Agency;
  - (b) the issues proposed by the Supervisory Board and investment Board.
10. A Director of the Pension Agency shall, apart of the cases provided for by this Law, raise the proposals for the wage schedule and the list of personnel to be considered in the annual budget of the Pension Agency.
11. A Director of the Pension Agency must comply with the obligations under the Law on Conflict of Interests and and Corruption in Public Establishment.
12. A Director of Pension Agency may not serve in any professional capacity for any Asset Manager or Custodian of the Pension Agency during a period of twelve (12) months immediately after dismissing him/her from the position of the Director of the Pension Agency.
13. A director of the Pension Agency shall submit to the Parliament of Georgia a report of the Pension Agency's activities according to the results of each year.
14. A Director of the Agency is dismissed from the position:
  - A) when applies to the Supervisory Board on its own application;
  - B) in case of termination of Georgian citizenship;
  - C) in the event of a legal verdict of a final conviction of a criminal case against him/her;
  - D) in case of recognition him/her as a missing person or declaration him/her as deceased by a court;
  - E) if the status of the recipient's person is granted by a Court's decision , unless otherwise provided by a court decision;
  - F) in the case of occupation or activity incompatible with him/her;
  - G) for the violation of the requirements defined by this Law and / or for the improper fulfillment of the powers and obligations granted by law;
  - H) in case of death.

#### **Article 10. Supervisory Board**

1. The Supervisory Board consists of four (4) members:
  - (a) The Minister of Finance of Georgia;
  - (b) The Minister of Economy and Sustainable Development of Georgia;
  - (c) The Minister of IDPs from the Occupied Territories, Health, Labour and Social Affairs of Georgia;
  - (d) The Chairperson of the Investment Board.
2. Supervisory Board appoints from its own composition a Chairperson of the Supervisory Board for the term of two (2) years.

3. The Chairperson of the Investment Board may not be the Chairperson of the Supervisory Board.
4. When electing the Chairperson of the Supervisory Board the member of the Board may not cast a vote to himself/herself.
5. The Supervisory Board shall take a decision with a majority of votes present and in case of a tie the vote of the Chairperson of the Supervisory Board shall be decisive.
6. The Supervisory Board shall:
  - a) approve an annual budget of the Pension Agency, the number of employees of the Pension Agency and the amount of the remuneration (except for the employees of the investment office of the Pension Agency);
  - b) supervise the activities of the Director of the Pension Agency and give him/her instructions;
  - c) upon nomination by the Investment Board, appoint and remove the Chief Investment Officer;
  - d) appoint and remove the Director of the Pension Agency;
  - e) determine and supervise the mechanism for internal audit of the Pension Agency;
  - f) approve rules and conditions in relation to the intervals of the Scheduled Payments;
  - g) approve the rules and procedure for filing claims with the Pension Agency by heirs of participants;
  - h) give consent to the legal acts of the Director of the Pension Agency except for the legal acts belonging to the field of activities of the Investment Board, Chief Investment Officer and Investment Office of the Pension Agency;
  - i) ensure the audit of the Pension Agency by an independent auditor;
  - j) exercise other powers provided for by this Law.
7. The Supervisory Board may choose not to support the issues of remuneration of the Chief Investment Officer and the employees of the Investment Office of the Pension Agency provided that the denial would be substantiated.
8. Other rules and procedures for the activities of the Supervisory Board shall be governed by the Statute of the Pension Agency.
9. The work of the members of the Supervisory Board shall not be paid.

#### **Article 11. Selection Committee**

1. The Selection Committee shall through transparent selection procedures select the candidates for the Investment Board and shall submit them to the Parliament of Georgia for approval.
2. The Selection Committee shall determine and approve the selection procedures for the candidates to the membership of the Investment Board in accordance with this Law.
3. The Selection Committee consists of seven (7) members. The members of the Selection Committee are the Minister of Finance of Georgia, the Minister of Economy and Sustainable Development of Georgia, the Minister of IDPs from the Occupied Territories, Labour, Health and Social Affairs of Georgia, three members of the Parliament of Georgia and an independent member.
4. NBG shall nominate an independent member of the Selection Committee. An independent member may not be an employee of the National Bank or a member of the Board of the National Bank. The independent member must have at least 10 years of professional experience in financial sector, including at least 5 years of working experience in management in the field of finance, investment and/or risk management.

5. The Parliament of Georgia nominates three MPs as the members of the Selection Committee. The powers of the member of the selection commission as defined by this paragraph shall be terminated before the term of office of the member of the Selection Commission upon termination of the powers of the member of the Parliament of Georgia.
6. The Selection Committee has a Chairperson to be elected by the Selection Committee with a majority of all members. The work of the members of the Selection Committee except for the independent member shall not be paid. NBG shall ensure the remuneration for the independent member of the Selection Committee. Other costs related to activities of the Selection Committee shall be financed from the annual budget of the Pension Agency.

**Article 12. The Composition of the Investment Board**

1. For the purposes of adopting the investment policy of Pension Assets, the Investment Board is formed within the Pension Agency, consisting of five (5) members.
2. The members of the Investment Board are elected for a term of five years by the Parliament of Georgia with a majority of all members. If the term of the member of the Investment Board has expired and no new member has been appointed, then the existing Investment Board member will continue with a mandate until the new member is appointed.
3. The Investment Board shall elect the Chairperson from its members for the term of office with a majority of all its members.
4. When electing the Chairperson of the Investment Board the member of the Board may not cast a vote to himself/herself.
5. As a member of the Investment Board may be appointed a person of recognized integrity, with at least ten (10) years of professional experience in finances, investments, economics, risk management or actuarial activities.
6. For each open position on the Investment Board, the Selection Committee shall recruit both locally and internationally including placing advertisements in at least one major world financial publication. For each position the Selection Committee shall consider at least two (2) candidates and for this purpose the Committee shall prepare a list of selection criteria and based on this list shall consider the candidates. The selection of the candidates shall be carried out based on the professional skills and experience and shall be decided with a majority of all members of the selection Committee.
7. As a member of the Investment Board shall not be appointed a person who is a relative as defined by the legislation of Georgia of a member of the Selection Committee, the Director of the Pension Agency, the Member of the Government of Georgia or an affiliated person with a member of the Selection Committee, the Director of the Pension Agency, a member of the Government of Georgia, or is a manager or an employee of the Asset Manager or the Custodian of the Pension Agency, or any other service provider to the Pension Agency, or is a beneficial owner of shares of the Asset Manager(s) or the Custodian or any other person providing services to the Pension Agency, or is an affiliated person with the Asset Manager or the Custodian of the Pension Agency, or with any other person providing services to the Pension Agency.
8. A person may not be appointed as a member of the Investment Board if he/she was convicted for a crime or was declared bankrupt or recognized as an inappropriate person for managing a financial institution in any country.
9. A member of the Investment Board shall be removed from the office by the Parliament of Georgia if:
  - (a) a guilty verdict by court against him/her has come into force;

- (b) a court has recognized him/her as missing or dead;;
  - (c) a court has attributed to him/her a definite status of support recipient in accordance with the legislation of Georgia or under the legislations of any other country, unless otherwise defined by a court decision;
  - (d) he/she has resigned or died;
  - (e) he/she has violated the requirements established by this Law and/or improperly exercised the powers assigned by the law and has fulfilled the obligations under the law inadequately;
  - (f) he/she has not participated in the Investment Board sessions for three consecutive terms without good reason as provided for by the statute of the Pension Agency.
10. All members of the Investment Board shall be restricted in respect to any gifts or credit or remuneration from any Asset Manager or Custodian of the Pension Agency, from any service provider of the Pension Agency or from any Affiliated Entity of the Asset Manager(s), Custodian or any service provider of the Pension Agency.
  11. The membership of the Investment Board is a paid work and shall be funded from the budget of the Pension Agency.
  12. Persons appointed as members of the Investment Board may not serve in any professional capacity for any Asset Manager or Custodian of the Pension Agency during a period of twelve (12) months immediately following their departure from membership of the Investment Board.

**Article 13. Duties and obligations of the Investment Board**

1. The Investment Board shall:
  - a) develop the Investment Policy Document in accordance of this Law and submit it without the right to make changes to the Director of the Pension Agency for approval;
  - b) where necessary review and update the Investment Policy Document including the Strategy of Asset Allocation in accordance with this Law;
  - c) at least quaterly monitor and assess all the activities related to the investment of Pension Assets;
  - d) assess the compliance of the investment activities with the Investment Policy Document and in case of discrepancy, require a Chief Investment Officer to submit within a reasonable time a plan of the measures to be implemented for approval in order to ensure the investment portfolio comformity;
  - e) in order to prepare an annual budget of the Pension Agency, develop the proposals for the annual expenses of the investment activities, including with regard the number of employees of the investment office and wage expenses, and also with regard other fees under the contracts with service providing persons and submit them to the Director of the Pension Agency;
  - f) select the Custodian(s) and the Asset Management Company(ies);
  - g) define and for the purpose of preparation of an annual budget submit to the Director of the Pension Agency the proposal regarding the wage level of the Chief Investment Officer.
2. In case the Supervisory Board did not take into account or partially took into account a draft budget prepared on the basis of the proposal provided for in subparagraphs (e) and (g) of paragraph 1 of this article, the Supervisory Board shall provide the Investment Board with substantiated arguments about this.

3. The Investment Board shall be obliged to care about the increase of the involvement of the Asset Management Companies and open-end pooled instruments in the investment process of the Pension Assets.
4. The Investment Board shall determine the selection criteria and procedures for Asset Management Companies, as well as the amount of pension assets to be transferred to the Asset Management Companies for the management and the criteria and procedures for the terms of transfer.
5. Taking into account financial market trends, the Investment Board shall publicly declare a plan for share proportions of funds in the total annual investment placed through asset management companies and open-end pooled instruments that must be calculated for the next 3-year period.
6. The Investment Board shall in accordance with this Law develop the rules and procedures related to the activities of the Investment Board and shall submit them to NBG for approval.

**Article 14. Investment Office of the Pension Agency and Chief Investment Officer of the Pension Agency**

1. For the purposes of investing the Pension Assets an Investment Office shall be created in the Pension Agency managed by a Chief Investment Officer.
2. The Director of the Pension Agency shall appoint and remove the employees of the Investment Office upon the nomination by the Chief Investment Officer.
3. The Chief Investment Officer shall develop the organisational structure of the Investment Office in agreement with the Investment Board and shall submit the document to the Director of Pension Agency for approval.
4. The Chief Investment Officer shall exercise the powers under this Law through the Investment Office.
5. The Pension Agency shall provide the Chief Investment Officer and the Investment Office with necessary human and logistical resources envisaged in the budget of the Pension Agency under this Law in order them to exercise the duties and obligations as provided for by this Law and the Statute of the Pension Agency.
6. The Investment Board based on the requirements of the transparent and competitive selection process developed by the Investment Board, shall select and submit to the Supervisory Board a candidate of the Chief Investment Officer of the Pension Agency for the appointment. The decision shall be made by a majority of total number votes by the Supervisory Board in favour of a candidate. The rights and duties of the Chief Investment Officer shall be determined by this Law and the Statute of the Pension Agency.
7. A person may be appointed as a Chief Investment Officer who is reputable person and has at least ten (10) years of professional working experience in the financial sector including three (3) years in the managerial position in the field of investments, financial and/or risk management.
8. The Chief Investment Officer shall participate in developing the investment policy in accordance with this Law.
9. The Chief Investment Officer shall be responsible for the implementation of the Investment Policy Document for the Pension Assets.
10. Other rights and duties of the Chief Investment Officer shall be determined by the Statute of the Pension Agency.

11. The liabilities under the Law of Georgia on Conflict of Interests and Corruption in Public Service shall apply to a Chief Investment Officer of the Pension Agency. The Chief Investment Officer shall be also restricted from any gifts, credit or remuneration from any Asset Manager, Custodian or any Affiliated Entity, or any service provider of the Pension Agency. The Chief Investment Officer is subject to the obligation to file property declarations on annual basis.
12. A Chief Investment Officer of the Pension Agency may not serve in any professional capacity for any Asset Manager or Custodian during a period of twelve (12) months immediately following his/her departure.
13. A Chief Investment Officer may be removed from the office by the Supervisory Board upon the proposal by the Investment Board.

**Article 15. Fiduciaries**

1. All members of the Investment Board and the Chief Investment Officer of the Pension Agency shall be Fiduciaries within the meaning of this Law.
2. The fiduciary shall not extend to the members of Supervisory Board except the Chairperson of the Investment Board.
3. The employees of the Pension Agency immediately involved in the investment activities of the Pension Assets shall be considered as Fiduciaries.

**Article 16. Meetings and Procedures of the Supervisory Board**

1. The Supervisory Board of the Pension Agency shall meet as often as business shall require but at least quarterly. The meeting of the Supervisory Board may be held through means of electronic communications.
2. The Chairperson of the Supervisory Board shall preside at meetings of the Supervisory Board of the Pension Agency. In his or her absence the member acting in the capacity of Chairperson of the Supervisory Board or other member of the Supervisory Board shall preside.
3. Each member of the Supervisory Board shall have one vote and he/she may not delegate the vote to other persons. The Supervisory Board shall make decision if at least 3 members of the Supervisory Board are present at the Supervisory Board meeting. In the case of equal votes, the vote of the chairperson of the Board shall be decisive.
4. The Supervisory Board may invite any employee of the Pension Agency to the meeting of the Supervisory Board.

**Article 17. Meetings of the Investment Board and Procedures for conducting them**

1. The Investment Board of the Pension Agency shall meet as often as business shall require but at least quarterly. The meeting of the Investment Board may be held through means of electronic communications.
2. The Chairperson of the Investment Board shall preside at meetings of the Investment Board of the Pension Agency. In his or her absence another member of the Board elected to preside at the meeting shall preside.
3. Each member of the Investment Board shall have one vote and he/she may not delegate the vote to other persons. The Investment Board shall make decision if at least 3 members of the Supervisory Board are present at the Investment Board meeting.. In the case of equal votes, the vote of the Chairperson of the Investment Board shall be decisive.

4. The Director of the Pension Agency and the Chief Investment Officer may attend the meetings of the Investment Board without the right to vote.
5. The Investment Board may invite any employee of the Pension Agency to the meeting of the Investment Board.

**Article 18. The sources of funding the Pension Agency and the annual budget**

1. The activities of the Pension Agency shall be funded from the Pension Assets of the participants as an annual service fee of the Pension Assets expressed in percentage of the Pension Assets. The Pension Agency shall be entitled to determine scheduled withdrawals of the mentioned fee.
2. The draft annual budget of the Pension Agency must account in the separate form for the following:
  - (a) the budget of the investment activities, including the budget of the Investment Office, as well as the commission fees of the service for Asset Management Company (Companies) and Custodian (Custodians) and the expenses of the Investment Board;
  - (b) the management and administrative expenses of the Pension Agency;
  - (c) distribution of common expenses.
3. The budget of the Pension Agency must define the percentage of the annual service fee with regard to total and separate investment, management and administrative activities.
4. The Director of the Pension Agency shall submit a draft budget of the Pension Agency to the Supervisory Board not later than 1 November of the budget year.

**Article 19. Reporting and Accountability of the Pension Agency**

1. Every year the Pension Agency shall disclose to the public an annual report on the performed activities not later than five (5) months from the end of the calendar year, including the following information:
  - a) Financial Statements in accordance with the international standards audited by one of the four largest audit companies of the world as selected by the Parliament of Georgia; The selected auditory shall audit only three consecutive annual financial statements;
  - b) overall total profitability in terms of the each portfolio as provided for by paragraph 4 of article 27 of this Law, including by the class of assets, profitability with regard to the benchmarks;
  - c) the information on values and proportions of the invested assets into the investment portfolios as provided for in paragraph 4 of article 27 of this Law, and also the information on the target and actual distribution of class assets;
  - d) each individual asset manager performance statistics relative to their benchmarks, and investment performance and variance from benchmarks for each asset class, separately for national currency denominated and foreign currency denominated financial instruments investment, and for each pool of the Pension Assets;
  - e) Statements of all fees, such as Asset Manager and custodian fees, other fees for services and for financial transactions;
  - f) any other information as provided for by the legislation of Georgia and/or requested by NGB.
2. The Pension Agency shall be obliged to submit to the Parliament of Georgia not later than 3 months from the end of the first 6 months of the calendar year to review the activities carried out by it within six months.

3. The Pension Agency shall be obliged to submit to the Parliament of Georgia an annual report of its activities not later than 5 months after the end of the calendar year.
4. The statute of the Pension Agency may calculate and disclose a total value of the Pension Assets with the smallest intervals.
5. The Pension Agency shall be entitled to publish other information (including unaudited financial statements) with a periodicity defined by the Pension Agency.

#### **Article 20. Audit**

1. An internal audit office shall be created within the Pension Agency accountable only before the Supervisory Board. The head of the internal audit office shall be appointed and removed by the Director of the Pension Agency upon the nomination of the Supervisory Board.
2. The internal audit office shall have access to all records and documents including the information on the staff of the Pension Agency and the members of the Investment Board.
3. The structure, powers and rules of operation of the internal audit office shall be defined by the Statute of the Pension Agency.
4. The Supervisory Board shall ensure the provision of an independent annual audit under the legislation of Georgia.

### **Chapter IV - Participation in the Pension Savings Schemes**

#### **Article 21. Participation in the Pension Savings Schemes**

1. Each employee becomes a Participant of the Pension Savings Scheme upon first receipt of the Wage from the date this article is enacted, except for the employees who attained 60 years (in the case of a woman - 55 years) before enactment of this Law.
2. An employee shall have the right to refuse participation in the pension savings scheme in accordance with this Law.
3. An employee who has attained 60 years (in the case of a woman - 55 years) before the enactment of this Law, and a self-employed shall become voluntarily participants according to this Law.
4. An employee who has attained 60 years (in the case of women - 55 years) before the enactment of this Law and a self-employed shall become participants after the first pension contributions are made after this article is enacted.

#### **Article 22. Refusal to Participate in Pension Savings Schemes**

1. An Employee who has turned forty (40) prior to enactment of this Law and has no wish to be a Participant in the Pension Savings Scheme, he/she shall be authorised to apply in writing to the Pension Agency in accordance with the rule defined by the Pension Agency and leave the Pension Savings Scheme within the five (5) months from the date of obligatory automatic enrolment into the scheme but not earlier than three (3) months following the enrolment. Otherwise the employee shall remain the participant of the Pension Savings Scheme.
2. No Employer shall at any time seek to persuade or induce Employees in the Pension Savings Scheme to opt-out of enrolment through persuasion, overpersuasion or any other form of influence on them.
3. If an Employee declines to participate in the Pension Savings Scheme as defined under Paragraph 1 of this Article:



- (a) the Pension Contribution paid by the Employee to his/her Individual Pension Account and the related investment income shall be taxed in accordance with the legislation of Georgia and returned to the Employee in the manner as established by the Pension Agency;
- (b) the Pension Contributions paid by the Employer for the benefit of the Employee to the Pension Account of an Employee and the related investment income shall be returned to the Employer or its successor in the manner established by the Pension Agency;
- (c) the Pension Contributions paid by the State on behalf of the Employee to the Pension Account and the related investment income with the deduction of relevant costs shall be transferred to the Single Treasury Account in the manner established by the Pension Agency.
4. Employees who decline to be Participants in the Pension Savings Scheme in cases envisaged by paragraph 1 of this Article may re-enrol into the Pension Savings Scheme at any time in compliance with the rules established by the Pension Agency. Upon such re-enrollment of a Participant, the Employer, Employee and State Pension Contribution obligation shall be in effect from the first payment of Wage, and the Participant shall be considered compulsorily enrolled into the Pension Savings Scheme and his/her rights related to assets on Individual Pension Account shall be defined under present Law.
  5. Payment of Wages for the first time to Participants enrolled under paragraphs 4 of the present Article shall cause creation of a primary informational entry into the Electronic System of Pension Contributions Administration for such Employees, which shall confirm enrollment of such Participants into Pension Savings Scheme and create basis for the formation of corresponding Individual Pension Accounts.

#### **Article 23. Continuity of the Enrollment into the Pension Savings Scheme**

1. The participant whose salary payment is temporarily ceased shall temporarily cease the contributions to the pension scheme. The participant shall resume the contributions after the moment of restoration of the salary payments. If participant temporarily ceases participation in the Pension Savings Scheme because of the reasons such as termination of labour relations, pregnancy, maternity and child care and taking leave for the adoption or newborns, or temporary or permanent incapacity, his/her assets remain on his/her individual account in accordance with this Law.
2. A Self-employed Person who suspends payment of Pension Contributions may resume payment of Pension Contributions at any time.
3. The participant deciding to leave Georgia permanently may request to receive as a lump sum payment or scheduled withdrawals of the amount equal to the value of the accumulated pension assets on his/her individual pension account. The request will be satisfied with a condition that the participant provides the dully certified legal permanent residence document of the other country.
4. In cases defined under Paragraph 3 of this Article the amount equal to state contributions made for the benefit of Participant shall be deducted from the sum to be received by such Participant from the Individual Pension Account within the Pension Savings Scheme, while the remaining amount shall be taxed in compliance with Georgian legislation.

### **Chapter V. Pension Assets and Investment of Assets**

**Article 24. Article 21. Right of Participants of the Pension Savings Scheme to Pension Assets**

1. Pension Assets allocated to each Individual Pension Account of the Participant of Pension Savings Scheme shall be the property of the Participant. The right to dispose the above property arises only with attaining the pension age or in cases provided for by this Law.
2. This property right of the Participant to the pension assets cannot be pledged, garnished, assigned, mortgaged, or otherwise alienated to satisfy or secure any claims against the Participant. Rights of Participant to Pension Assets on Individual Pension Account shall not be subject to enforcement for any claims against the Participant or the Pension Agency, shall not be entered into the bankruptcy mass of the participant or the Pension Agency and shall not be affected by any settlement proceedings.

**Article 25. Individual Pension Accounts in the Pension Agency**

1. Pension Contributions shall be credited to Individual Pension Accounts of the participants.
2. The Pension Agency shall establish an Individual Pension Account for each Participant upon enrollment and shall provide Participant with a mechanism for remote electronic access to information about Individual Pension Account. The issue of creation of the individual accounts, the methodology for calculating the cost of the individual pension account and other related issues shall be defined by the Pension Agency.
3. The value of individual pension accounts shall be calculated and the information about them shall be made accessible for each participant of the pension scheme at least quarterly.
4. The Pension Agency shall develop and submit for approval of NBG the respective methodology for calculating the value of pension assets.
5. If the Pension Agency determines that an Employer, Employee or Self-employed person made excess contributions, such excess contributions will be refunded in accordance with rules established by the Pension Agency.

**Article 26. Custodian**

1. The Pension Agency must appoint a single or multiple Custodian to whom it shall assign the custody of Pension Assets and enter into a custody agreement with that Custodian. The Custodian and its employees who have discretion with respect to the Pension Assets shall be Fiduciaries of the Pension Agency for purposes of this Law.
2. The Investment Board shall select the custodian through a competition. The terms and procedure for conducting the bid, including pre-qualification requirements for the Custodian shall be elaborated and approved by the Investment Board. Referred selection procedure shall not be subject to Georgian legislation on state procurement.
3. A Custodian may act as such in relation to more than one entity but must keep the Pension Assets, operations, and records of the Pension Agency strictly segregated from any other assets and from those of the Custodian.
4. A Custodian that is a legal entity registered in Georgia and provides custodian services to the Pension Agency must be licensed and satisfy requirements set by NBG. The person registered outside of Georgia providing custodian services must be licensed by the regulatory body of the respective foreign state and accepted by NBG. Such a Custodian must be operable and no insolvency proceedings shall be initiated against it. The Custodian must meet the requirements of the legislation.
5. The Custodian of the Pension Agency at the same time:
  - (a) Must not act as Asset Manager of the Pension Assets of the Pension Agency;

- (b) Must not be an Affiliated Entity of the Asset Manager or any member of the Supervisory or Investment Board of the Pension Agency;
  - (c) Must not lend money to, or borrow from, the Asset Manager of the Pension Agency, or its Affiliates.
6. The functions of a Custodian shall include the following:
    - (a) receive and keep securities that constitute Pension Assets;
    - (b) receive and keep copies of settlement documents regarding the transfers and the issuance of monetary funds that constitute Pension Assets;
    - (c) make entries in the relevant accounts in the register of Pension Assets deposited with the Custodian;
    - (d) provide all necessary information to the Pension Agency to assist the latter in performing the obligations under this Law;
    - (e) ensure that the documents of acquisition and disposal of Pension Assets are in compliance with the legislation of Georgian and other rules established by the Pension Agency.
  7. The custody agreement between the Pension Agency and the Custodian shall cover at least the following issues:
    - (a) specific responsibilities of the Custodian;
    - (b) timeframes and forms for performance;
    - (c) the amount of the remuneration of the custodian and method of the calculation of the remuneration;
    - (d) other requirements as are provided for under Georgian law.
  8. In case of revocation of a license or any substantive breach of the custodian agreement or improper performance or where the insolvency proceedings are initiated against the Custodian, the Agency shall notify the Custodian about the termination of the agreement and shall immediately inform NBG and the Investment Board about this.
  9. The substitution of the Custodian shall be carried in a manner ensuring the continuation of the provision of the custodian services to the Pension Agency.
  10. When an agreement with a Custodian is dissolved, the Custodian shall release the Pension Assets in its custody and all documents relating to the performance of its duties to a new Custodian, as provided in the initial agreement with the Custodian, or within a period agreed by the parties.
  11. Pension Assets placed in custody in accordance with the provisions of this Article are not the property of the Custodian, may not be subject to the performance of a Custodian's liabilities, shall not be a part of the assets of the Custodian to which the bankruptcy procedure applies, and shall not be covered by any settlement proceedings except that which related to the investment proceedings of the pension assets.
  12. In the event the Investment Board determines that for Pension Assets in Georgia a single Custodian is not appropriate, a second Custodian may be appointed for the purpose of holding Pension Assets in Georgia. In such case, the Custodian shall be selected and agreement shall be executed in compliance with the rules established by this Article.

**Article 27. Investment of Pension Assets**

1. The Pension Assets may only be invested in accordance with the provisions of this Law and in order to maximize their real returns (in terms of inflation) within the investment horizon for the interests of Participants following the principles of prudent investments.
2. The principles of prudent investments are as follows:

- (a) maximization of real returns (considering inflation) in the long-term over appropriate investment of Pension Assets;
  - (b) diversification of investment;
  - (c) security of Pension Assets over long-term investment period;
  - (d) maintenance of adequate liquidity.
3. The investments of Pension Assets shall be carried out through three investment portfolios with different risk and expected profitability. Each participant of the pension scheme shall decide himself/herself which portfolio is most appropriate to his/her tolerance towards risks. A participant shall, within 1 month after registering in the Pension Scheme, fix a decision which investment portfolio or investment portfolio combination is suitable to him/her, by means of remote electronic access and/or an application.
  4. In case the Participant of the Pension scheme does not use the right provided for by paragraph 3 of this Article, the assets shall be invested according to following principle:
    - a) at the time of enrollment the assets of Participant under the age of 40 – into the higher risk portfolio;
    - b) at the time of enrollment the assets of the Participant between the age of forty (40) to fifty (50) – into the medium risk portfolio;
    - c) by the time of enrollment the assets of Participant of age of fifty (50) or above – into the lower risk portfolio.
  5. The participant of the pension scheme may change an investment portfolio and/or an asset management company of his/her choice fully or partially with a periodicity as established by the Supervisory Board and agreed with the Investment Board. The period may not be less than twelve (12) months. The amendment may affect the amounts paid on the individual pension account and/or future pension contributions.
  6. The Investment Board shall under the principles provided for by this Article develop the Investment Policy Document according to which the investments of the pension assets shall be carried out.
  7. For the purpose of investing in pension assets, Investment Policy Document must within the context of each type of investment portfolio clearly identify at least the following issues:
    - a) the investment objectives;
    - b) the strategic asset allocation (SAA) and maximum allowable deviation from the SAA for each class assets and targeted investment benchmarks;
    - c) the overall risk profile and the matrix of tolerance to individual risks, indicating the investment horizons of its action;;
    - d) procedures for making investment decisions, including selection, monitoring, assessment and termination of agreements with Asset Managers, Custodian, and other investments related service providers in accordance with this Law. The investments of each investment portfolio shall be planned with a rational that with a high probability (95% and more probability) positive real returns are expected by the end of the investment horizon (considering inflation).
  8. Each investment portfolio must have different investment horizon to be defined by the Investment Board in accordance with the requirements of this Law. Furthermore:
    - a) the investment horizon of the lower risk portfolio must be at least five (5) years;
    - b) the investment horizon of the medium risk portfolio must be more than the investment horizon of the lower risk investment fund;
    - c) the investment horizon of the higher risk portfolio must be more than the investment horizon of the medium risk portfolio.

9. The assessment of the return of each investment portfolio related investment and the efficiency of the investment policy shall be carried out in consideration of the term of the investment horizon.
10. The Investment Board shall adopt the procedure and periodicity for review of the Investment Policy Document. An investment policy document shall be reviewed at least once a year.
11. In order to react to significant disturbances on the financial markets and the risks related to them, the Investment Board shall consider the necessity to amend the policy Document.
12. The categories of investment portfolios referred to in paragraph 3 of this article and acceptable investment limits according to the class of assets shall be defined in the following manner:
  - (a) lower risk investment portfolio:
    - (i) monetary funds and deposits - up to 75%
    - (ii) debt securities - up to 100%;
    - (iii) equity securities - up to 20%
  - (b) medium risk investment portfolio:
    - (i) monetary funds and deposits - up to 50%
    - (ii) debt securities - up to 75%;
    - (iii) equity securities - from 20 up to 40%
    - (iv) other categories of assets - up to 10%
  - (c) higher risk investment portfolio:
    - (i) monetary funds and deposits - up to 25%
    - (ii) debt securities - up to 50%
    - (iii) equity securities - from 40% up to 60%
    - (iv) other categories of assets - up to 10%.
13. The upper thresholds of allocation for investment portfolios in the foreign currency denominated financial instruments shall be defined by the following amounts:
  - (a) lower risk investment portfolio – 20%
  - (b) medium risk investment portfolio – 40%
  - (c) higher risk investment portfolio – 60%
14. NBG and the Investment Board may provide recommendations to the Supervisory Board to change the investment limits and restrictions under this Law provided the above limits and restrictions hinder the optimal allocation of the pension assets for the best interests of the participants of the pension schemes.
15. The Investment Board shall approve detailed investment guidelines for each type of investment portfolio, covering at least the rate of return target indicators, risk deviation thresholds towards the target indicators, allowable and prohibited investments, credit risks, investment horizon, rating limits in accordance with the Investment Policy Document and this Law.
16. The Pension Assets managed may be invested in the following financial investment instruments denominated in foreign currency:

- a) monetary funds, including bank accounts with commercial banks that are licensed by the state regulatory body which are not under insolvency proceedings and are not subject to suspension of their license;
  - b) government securities;
  - c) loan securities issued by international financial institutions;
  - d) securities issued by the state, local self-governments and state agencies provided that they are fully guaranteed by the respective state;
  - e) corporate loan securities that are registered by the respective regulatory body and are placed through public or private offers;
  - f) shares of companies or global depository receipts registered by the state regulatory body of the stock market that are placed through public offer and are traded on the stock exchange provided they are subject to continued supervision by the respective regulatory body;
  - g) open-end pooled instruments;
  - h) other financial and/or non-financial assets that may be allowed for investments by NBG.
17. Pension Assets may only be invested in the following financial investment instruments denominated in national currency:
- a) monetary funds, including bank accounts with commercial banks that are licensed by the NBG which are not under insolvency proceedings and are not subject to a suspension of their license;
  - b) government securities, securities used by self-governing units;
  - c) loan securities issued by international financial institutions;
  - d) corporate debt securities that are registered by the respective regulatory body in Georgia and are placed through public or private offers;
  - e) Shares of companies placed through a public offer and placed in the listing of the stock exchange licensed in Georgia or any other foreign state that are subject to continued supervision by the respective regulatory body;
  - f) Open-end Pooled Instruments registered in and regulated in Georgia;
  - g) other financial and/or non-financial instruments that may be allowed for investments by NBG.
18. NBG shall define the minimal allowed rating for any investment instruments and/or issuers as provided for by this Article.
19. NBG may define additional requirements for any investment instruments and/or issuers as provided for by this Article.
20. Pension Assets may not be invested in:
- a) assets that are not capable of alienation by law;
  - b) options, futures, forward and other agreements with respect to securities and other financial assets, except that derivatives may be used as a hedging strategy to reduce risk and at the same time does not increase open positions;
  - c) real estate or physical assets;
  - d) any property of the Asset Manager, Custodian, member of the Supervisory Board, the Investment Board, or any its Affiliated Entity;
  - e) securities issued by:
    - e.a) the Asset Manager, or its Affiliated Entity;
    - e.b) the Custodian providing services to the Pension Agency and/or Asset Manager of pension assets, or the person affiliated to the Custodian;
  - f) other financial and/or non-financial instruments as defined by NBG.

21. Investments of more than 5 % of pension assets into the securities (excluding monetary funds and bank deposits) issued by a single issuer shall not be allowed.
22. Holding of more than 10 % of the securities of a single issuer in circulation shall not be allowed.
23. The restrictions provided for by paragraphs 21 and 22 of this Article shall not extend to the securities issued by the Government of Georgia, NGB or by the international financial institutions with a minimum (or equal) credit ratings of AA as accepted by the Government of Georgia.
24. Pension Assets may not be sold to:
  - (a) the Custodian holding these pension assets;
  - (b) an Asset Manager who serves these Pension Assets;
  - (c) a member of the Supervisory Board or Investment Board;
  - (d) any person who is an Affiliated Entity in relation to the Asset Manager or Custodian or member of the Supervisory Board or the Investment Board
25. The Asset Manager may not issue loans and guarantees of any kind in favour of any of the entities listed in sub-paragraph (d) of paragraph 24 of this Article.
26. The Asset Manager shall exercise all of the voting rights attaching to all stock shares it holds on behalf of the participants solely and exclusively in the interests of Participants and their Heirs.

**Article 28. Asset Management Companies**

1. The Investment Board may decide to transfer Pension Assets into the management of Asset Management Company in accordance with established criteria and procedures. In this case the Pension Agency shall conclude relevant agreement with the Asset Management Company.
2. The assets management company shall be obliged to manage the pension Assets in accordance with the asset management agreement and the detailed investment guidelines approved by the Investment Board which is developed based on the investment policy document. The Asset Managers and their employees who have discretion with respect to the Pension Assets shall be Fiduciaries in accordance with this Law.
3. Asset Managers that are legal entities registered in Georgia shall have a license issued in accordance with the legislation of Georgia. Such an Asset Manager must satisfy the following conditions:
  - (a) be active for the last three years without interruption and not be under insolvency proceedings or license suspension or revocation proceedings;
  - (b) not be an Affiliated Entity of the Custodian selected by the Pension Agency, as well as of the Supervisory Board or Investment Board;
  - (c) not lend money to, or borrow from, the Custodian or its Affiliates.
4. NGB may define the minimal allowed ratings and/or additional requirements for the Asset Management Companies registered in Georgia.
5. An Asset Manager registered outside Georgia must meet the following requirements:
  - (a) be licensed by the regulator of the country where it has a registration. NGB shall define minimal allowed credit ratings for the Asset Managers registered outside Georgia.
  - (b) be active for the last 10 years without interruption and not be under insolvency proceedings or license suspension or revocation proceedings;
  - (g) not be an Affiliated Entity of the Custodian selected by the Pension Agency or of any member of the Supervisory Board or Investment Board;

- (d) not lend money to, or borrow from, the Custodian or its Affiliates;
  - (e) have at least 3 years of experience in management of accumulated assets of the third parties (private and institutional).
6. NBG may define additional requirements for the Asset Managers registered outside Georgia.
  7. The Investment Board shall through transparent procedure select one or more assets management companies. The Investment Board shall adopt the rules and criteria for selecting the asset management company.
  8. Pension Assets located under the management of asset company in accordance with the provisions of this Article are not the property of the Asset Manager, may not be subject to enforcement against an Asset Manager, shall not be a part of the assets of the Asset Manager to which the bankruptcy procedure may apply, and shall not be covered by any settlement proceedings.

**Article 29. Right to elect an asset management company (companies)**

1. An employee who remains a participant within the limits of the right provided for in Article 22(1) of this Law, and also a self-employed person who voluntarily joins a pension savings scheme, shall have the right to select an asset management company (companies) for full or partial managing of the amount of pension assets and/or pension contributions paid to its individual pension account.
2. In addition to the participant provided for in paragraph 1 of this Article, any other participant shall be entitled to choose an asset management company (companies) to manage only the part of the assets contained in its individual pension account which have been accumulated on the amount received as a taxable annual salary, exceeding 60,000 GEL.
3. In case of non-use of the participant of the rights granted by paragraph 1 and 2 of this Article, the Pension Agency shall invest in its pension assets in accordance with the procedure established by this Law.
4. The NBG shall establish criteria for the compliance of an asset management company regarding the asset management companies defined by this article.
5. The Pension Agency shall determine, based on the Criteria set by the National Bank, a list of asset management companies that are enabled to manage the Pension Assets provided for by this article.
6. A participant shall select an asset management company by means of remote electronic access or an application designed by the Pension Agency, which is filled and submitted in writing.
7. The Pension Agency shall define procedures related to the transfer of pension assets to the asset management company, standard conditions of the respective contract, the maximum amount of service fees and the periodicity of the assignment of pension assets.
8. The investment policy document and the provisions of this law related to the investment of pension assets shall apply to asset management companies and investments.
9. In case of choosing by the participant an asset management company in accordance with this article, the Asset Management Company shall transfer the pension assets for deposition to the Custodian, which may not be its affiliated person and must satisfy other requirements set forth in this Law.



**Article 30. Direct Investment in Open-End Pooled Instruments by the Pension Agency and/or an Asset Management Company**

1. The Investment Board and/or an Asset Management Company may decide on the exercise of its Fiduciary duty to invest the Pension Assets into Open-end Pooled Instruments.
2. Each constituent asset of the open-end pooled instrument must satisfy the minimal requirements established by this Law and Investment Policy Document.
3. The investment made to the open-end pooled instrument shall not exceed 40% of the pension assets at the end of each reporting year.
4. The Investment Board and/or an Asset Management Company shall select one or more Open-end Pooled Instrument by comparing terms and conditions of their standard prospectuses through a transparent procedure. Referred selection process shall not be subject to Georgian legislation on state procurement.
5. Open-end Pooled Instruments used by the Pension Agency for investments must be licensed by the respective regulator.
6. The NBG shall determine minimum acceptable credit ratings for Open-end Pooled Instruments.
7. The Investment Board shall consider the issue of selecting an adequate Custodian for the open-end pooled instrument in order to ensure the prudence of the pension assets of the participants. The custodial requirements of this Law shall not applicable to Pension Assets placed in Open-end Pooled Instruments.
8. The Pension Agency or an Asset Management Company acting on its behalf may execute a standard subscription document with the Open-end Pooled Instrument, which must specify the remuneration of the Open-end Pooled Instrument and the manner of calculating the costs and charges as a percentage of the total amount of Pension Assets placed in such investments.
9. The limitations on investment in a single issuer shall not apply to investment in a single Open-end Pooled Instrument, provided that the investment policy of the referred Open-end Pooled Instrument requires diversification as to generally conform to requirements of this Law.

**Article 31. Annual Reporting to Participants**

1. The Pension Agency shall, at least quarterly, provide each Participant with information on the value of the total pension assets registered on the Individual Pension Account of the Participant, indicating the dates of pension contributions and investment returns. Such information may be delivered electronically. The Pension Agency shall define the rules and manner for providing information in accordance with the legislation of Georgia.
2. If requested by a Participant, the Pension Agency shall be obliged to provide the Participant with a written statement on the value of accrued assets on his or her Individual Pension Account.

**Article 32. Payment of Pensions at Pension Age**

1. A Participant attaining Pension Age shall be eligible to receive the amount corresponding to the Pension Assets available on his/her Individual Pension Account in the form of a Lump-Sum Payment or Scheduled Withdrawal.
2. The Participant shall be also authorized to address the Pension Agency after reaching Pension Age and request the purchase of an insurance annuity product by pension assets registered on its individual pension account in order to receive the pension.

3. The Pension Agency may develop and ensure other formats for paying as a pension to the participant the pension assets available on the Individual Pension Account.
4. A Participant shall be entitled to a Lump-Sum Payment of total value of the Pension Assets from his/her Individual Pension Account if he/she has reached Pension Age not later than 5 years after the commencement of the pension contributions.
5. The Pension Agency shall define the minimum threshold of the value of pension assets within which the participant may receive the pension in lumpsum payment.
6. The participant shall receive the total amount of the accrued pension to the individual pension account after he/she in the manner provided for in this Article notifies the Pension Agency about the wish to receive the pension assets.
7. The Supervisory Board shall, on the basis of statistical data on life expectancy, approve the terms and conditions for setting the periodicity of Scheduled Withdrawals for the Pension Asset Participants who have not withdrawn the Pension Assets in compliance with Paragraph 4 of this Article.
8. The Scheduled Withdrawals shall be calculated by dividing the value of Pension Assets on the Individual Pension Account on the date Participant starts receiving Pension by number of years of life expectancy based on the latest total population age distribution data provided by the LEPL National Statistics Office of Georgia (GEOSTAT).
9. The Scheduled withdrawal shall be recalculated annually in the month of the age alteration of the participant. The Scheduled Withdrawals may not vary on the grounds of health, race, religion, sex, nationality or any other similar discriminatory grounds.
10. The Pension Agency shall notify a Participant in writing of his or her impending Pension Age six (6) months prior to Pension Age and shall ensure his/her access to standard forms necessary to apply for a Pension.
11. A Participant choosing to retire upon reaching Pension Age shall be obliged to notify the Pension Agency of his/her decision to retire upon reaching Pension Age and apply for payment of Pension at least thirty (30) days in advance of date of reaching Pension Age.
12. A participant shall be authorized to postpone the date of retirement and request a pension at any time after reaching retirement age. In this case the participant shall notify the Pension Agency in writing the retirement date not less than 30 days before such date.
13. After the participant reaches pension age, the state and the employer shall make pension contributions in favour of the participant in case the participant pays pension contributions to the pension Agency.
14. If a Participant opts to retire after having reached Pension Age, he/she may discontinue paying contributions from his/her salary based on an application. The Participant may not continue to make pension contributions after starting to receive the pension.
15. The Pension Agency shall start payment of the Pension from the Participant's Individual Pension Account not later than thirty (30) days after receipt of notice from the Participant regarding Pension date.
16. The Pension Agency shall periodically compare and verify the data and in cases of discrepancies shall correct the pension assets accrued to the individual pension accounts. The Pension Agency may seek to reclaim any amount determined to be erroneously paid to the Participant.
17. The Pension Agency shall define the procedures and forms to identify and register the Participants and representaives of their Heirs who in accordance with the legislation of Georgia need representatives and/or guardians.

### **Article 33. Payment of Pensions in Cases of Disability**

1. A Participant may be determined eligible for a Disability Pension prior to reaching Pension Age if he/she is assigned the relevant status in compliance with the Georgian law. In such case the Participant shall receive Pension in one of the forms prescribed by article 32(1-2) of this Law.
2. The Pension Agency shall determine respective forms and procedures based on which Participant shall exercise his/her right granted under the present Article and request payment of Pension prior to reaching Pension Age.

### **Article 34. Transfer of Pension Assets to Heirs of Participants**

1. If a Participant dies, the amount corresponding to the pension assets registered on its individual pension account shall be transferred to his heir (heirs) in the manner prescribed by this Law and other legislative and subordinate normative acts of Georgia.
2. The Pension Assets may be transferred in the form of a Lump Sum Payment or transfer to the Individual Pension Account of the Heir of the Participant, as selected by the Heir. In case of choosing the lumpsum payment by the heir of the Participant, the amount to be transferred to him/her shall be taxed according to the legislation of Georgia.
3. The heir of a participant shall submit a request to the Pension Agency in compliance with the rules and procedures established by the Pension Agency.
4. Upon receipt of all claims from the Heirs of participants, the Pension Agency shall receive the documents proving the eligibility of these requests and shall decide to transfer the Pension Assets to the heirs of the participants.
5. The Pension Agency may seek to reclaim any amount determined to be erroneously transferred to the Heirs of Participants.

## **Chapter VI - Fiduciary Breaches and Their Consequences**

### **Article 35. Fiduciary Breaches**

1. A Fiduciary must deal with Pension Assets solely in accordance with the interests of Participants and their Heirs in accordance with this Law, taking into consideration the requirements of this Law. It shall be a Fiduciary breach for a Fiduciary to serve any other interests. While implementing its obligations, a Fiduciary shall be obliged to:
  - (a) act in good faith;
  - (b) act with the care adequate to a prudent person in the similar position and condition;
  - (c) act in faith that their actions are the best for the protection of the interests of the Pension Assets' owners.
2. If the Fiduciary does not have relevant knowledge or expertise to make any particular decision, then he/she shall seek the opinion of an expert qualified in the respective field. Breach of Fiduciary duties means when a Fiduciary breaches duties determined only by this Law, including using the Pension Assets for his/her or other affiliated persons' favour, or entering into agreements regarding Pension Assets with the other party being an affiliated person of the Fiduciary.
3. A Fiduciary breach shall be deemed to be a violation by Fiduciary of the obligation only determined by this article, including the use of pension assets in favour of himself/herself or in favour of the affiliate persons, or a transaction in relation of the pension assets, the other party to which is the affiliate person to the Fiduciary.

4. An act of the Fiduciary shall not be deemed to be a violation of the fiduciary obligation, which he/she carried out in the process of conducting the investment activities in accordance with the provisions of this article, regardless of the outcome.
5. The liability provided for by the legislation of Georgia shall be imposed on a person who breaches the fiduciary duties.

#### **Article 36. Consequences of the Breach of Fiduciary Duties**

1. The Pension Agency may make a demand upon any Fiduciary to be compensated for the damages caused by a Fiduciary Breach.
2. Reimbursement of damages resulting from a violation of a fiduciary duty shall be regulated by the legislation of Georgia.
3. All amounts recovered as damages resulting from the Fiduciary breach shall be paid to the Individual Pension Accounts of the relevant Participants or their heirs according to the proportion of the damages inflicted by the breach of fiduciary obligation.

#### **Article 37. Employer's Interference with Employee's Enrollment process in Pension schemes of specific contribution and Employer's Failure to pay Pension Contributions of the employee to the Pension Agency and is/her own pension contributions**

1. It shall be a breach of this Law for any Employer to interfere with an Employee's enrollment into the Pension Savings Scheme.
2. It shall be a breach of this Law for any Employer to fail to pay own and Employee's Pension Contributions to the Pension Agency and shall result in imposing administrative liability.

## **Chapter VII**

### **Transitional and Final Provisions**

#### **Article 38. Transitional provisions**

1. The Government of Georgia shall adopt the Statute of the Legal Entity under Public Law - the Pension Agency, before 15 August 2018.
2. The Supervisory Board shall appoint the Director of the Legal Entity under Public Law – the Pension Agency in the manner established by this Law until 15 September 2018.
3. National Bank of Georgia shall adopt the legal acts provided for by this Law before 1 December 2018.
4. The Legal Entity under Public Law – The Pension Agency shall provide legal acts envisaged by this Law before 1 December 2018.
5. Prior to the election of the Chairperson of the Investment Board, the Supervisory Board shall have capable with the composition of 3 members.
6. The first chairperson of the Supervisory Board shall be elected by the Government of Georgia.
7. The first 3-year budget of the Pension Agency shall be financed by 100% from the state budget. Over the next 10 years, the Pension Agency's expenses may not exceed 0.5% of the pension assets, and after the expiration of this period - 0.25%.

8. The Parliament of Georgia shall elect 2 members of the first composition of the Investment Council envisaged by Article 12 (1) of this Law for a period of three years.
9. Investment of pension assets will be implemented within less than 5 years after the entry into force of this Law only in lower risk investment portfolio.
10. Within a period of 5 years after enactment of this Law, the limit of investing in pension assets (except for cash and bank deposits) issued by any issuer indicated in Article 27(21) of this Law is 15 per cent.
11. Activities of the selection commission shall be financed from the state budget of Georgia for the first year.
12. Within nine months after the enactment of this Law, the Ministry of Finance of Georgia shall submit to the Government of Georgia a package of legislative amendments related to the Index of State Pensions, which will ensure the maintenance of replacement coefficient. The Government of Georgia shall determine the procedure for fulfillment of the obligation to be fulfilled in 2019 that is specified by this Law and envisaged by the Pension Savings Scheme, in relation of funding to be made by the state in the pension scheme, as well as in relation of co-financing by the employer in the case of employees working in budgetary organisations.

**Article 39 - Entry into force of the Law**

1. This Law except for Articles 7, 21 and 29 of this law shall enter into force upon promulgation.
2. Articles 7 and 21 of this Law shall enter into force on 1 January 2019.
3. Article 29 of this Law shall enter into force on 1 January 2021.

**President of Georgia**

Kutaisi

21 July 2018

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**Giorgi Margvelashvili**